DANIER

Danier Leather Inc. 1999 Annual Report

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It was another record year for Danier Leather Inc. as we broke the $100 million revenue mark and finished the year at $109 million. Net earnings rose 38% to $6.1 million and EBITDA rose 18% to $13.2 million which represents an industry leading 12.1% of sales. Comparable-store sales rose 5%, a healthy gain considering that we had a 13% increase in the prior year.

We opened 15 new stores including our first in the United States. The power centre rollout, the core growth strategy, continues to go very well. We opened 10 new power centre locations across Canada.

In July 1999, shortly after the year-end, we moved our head office, distribution, manufacturing, and factory outlet store to a larger location on St. Clair Ave. West in Toronto. We planned this facility to accommodate our future growth. While there are numerous benefits to the larger facility, the most important will be the larger distribution capabilities with five loading doors. Our previous distribution centre had only one loading door and was unable to accept trailers or containers. In the new facility, we can load multiple trucks, each in less than half the time it took at the old facility. The key advantage will be the ability to quick-ship merchandise to stores more often at crucial periods of the year.

I would like to point out that many people told me of horror stories of such office moves gone bad. Ours went flawlessly. I would like to thank the "Move Team" that we set up at Danier who executed the move plan with precision.

We actively continue to seek quality locations to expand our store base. For fiscal 2000, the number of quality power centres being built is less than what we'd like to see, however, the industry is still growing and opportunities are arising for future years as more retailers are introducing concepts to fuel power centre growth. In addition, we are still opening mall-based stores where the deals are right. The key is to stick to quality real estate to fuel quality growth. While we will be adding fewer stores in fiscal 2000, we will be focusing on increasing the sales productivity of our existing locations through effective merchandising and marketing, line extensions, and increasing our accessories business.

We planted our first U.S. store in November 1998 as a seed for future expansion. Our expectations were met or, in some instances, surpassed in its first year of operation. We are working on refining the model by shifting our marketing budget significantly from mass advertising (which is what we first needed when we started) into database or relationship marketing. The key is to build the brand on a cost-effective basis and roll it out.

I am most excited about the opportunities presented by E-commerce. Our plans for the coming year include setting up a separate division called Danier Direct, to launch a robust and entertainment packed E-commerce site. At Danier we are sitting in a very, very strong position in that we control the design, manufacturing, marketing, and distribution of a unique product. Many retailers who distribute someone else's product are in a vulnerable position to larger international competitors. In essence, their E-commerce strategy may be to circle the wagons and try their best to protect their local turf. At Danier we have a unique and branded product which presents global opportunities. We can distribute around the world a product that offers better quality, fashion and price.

We have chosen IBM Canada to develop our E-commerce site for various reasons:

- They have the depth of resources and knowledge base to help get up and running efficiently and effectively,
- They can provide the security needed to give the consumer the comfort required to transact business over the Internet, and
- They are a globally-recognized brand which will help enhance our credibility to the consumer as we expand our brand.

While we look outside for opportunities to grow, there is always room to expand and improve our established operations. For example, we have made significant investments in our ability to do 'relationship marketing' with our growing and diverse group of customers. We wish to enhance our ability to talk to customers through our marketing on a one-to-one basis. This requires skills and software to understand and predict consumer behavior. We are looking for improved returns on marketing dollar investments beyond what mass advertising provides.

We will continue our efforts with our new merchandise planning tools to develop an enterprise-wide merchandise planning system which will assist in having the right merchandise in the right store at the right time.

I would like to thank Danier's 782 employees who work very hard to provide the ultimate shopping experience to our customers, our directors for their good counsel, and our shareholders for your support.

Jeffrey Wortsman

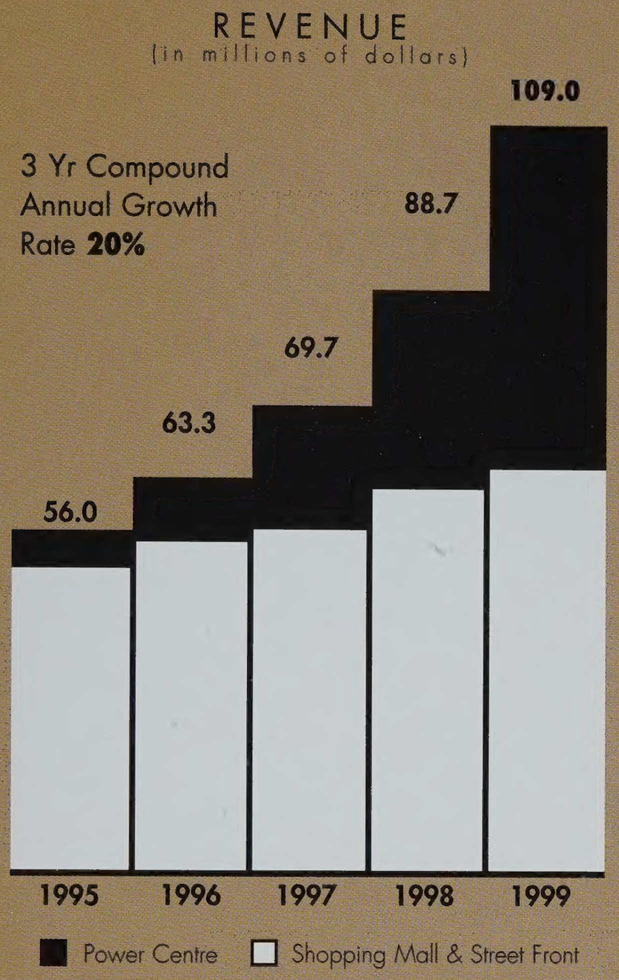
Jeffrey Wortsman
President and Chief Executive Officer

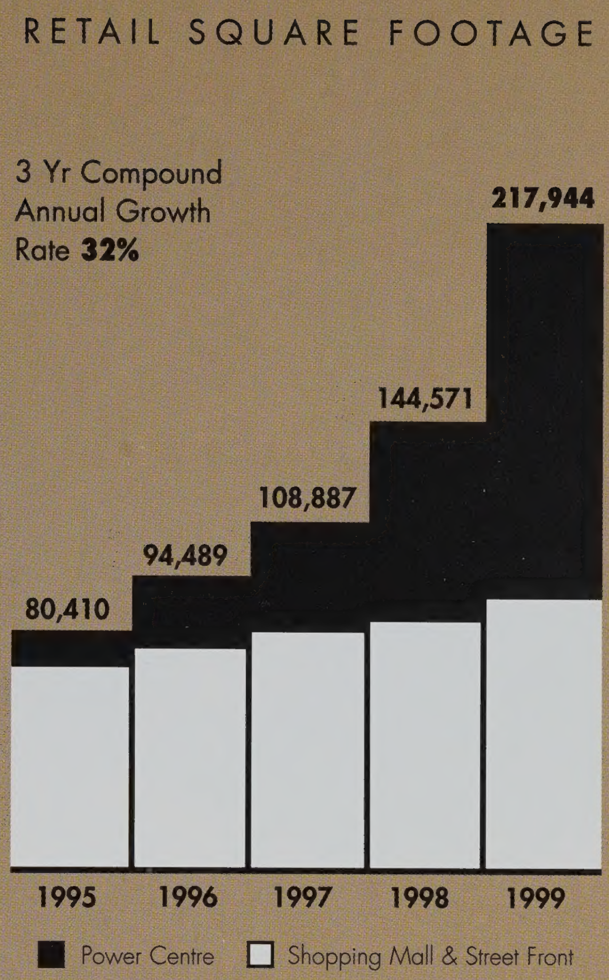
(thousands of dollars except percentages, ratios and statistics)

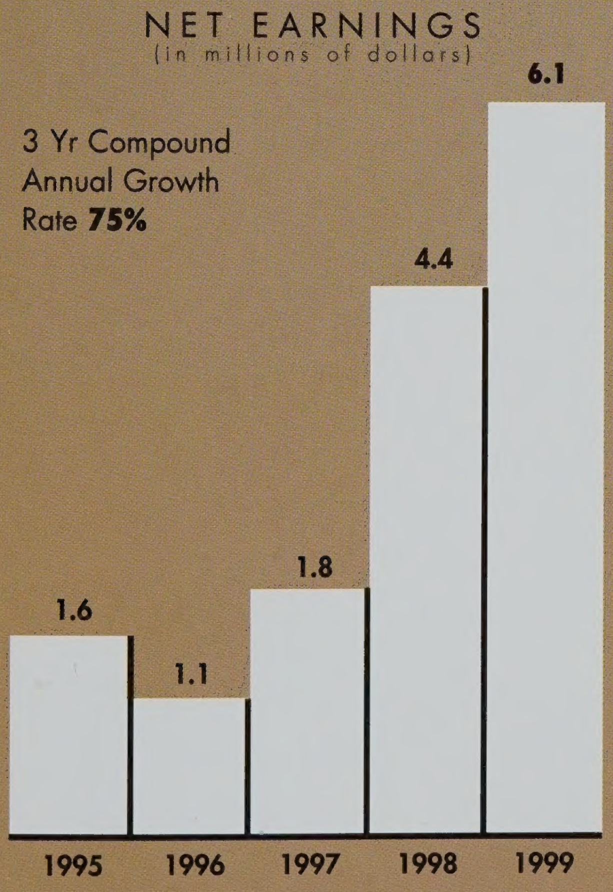
For the Fiscal Year Ended

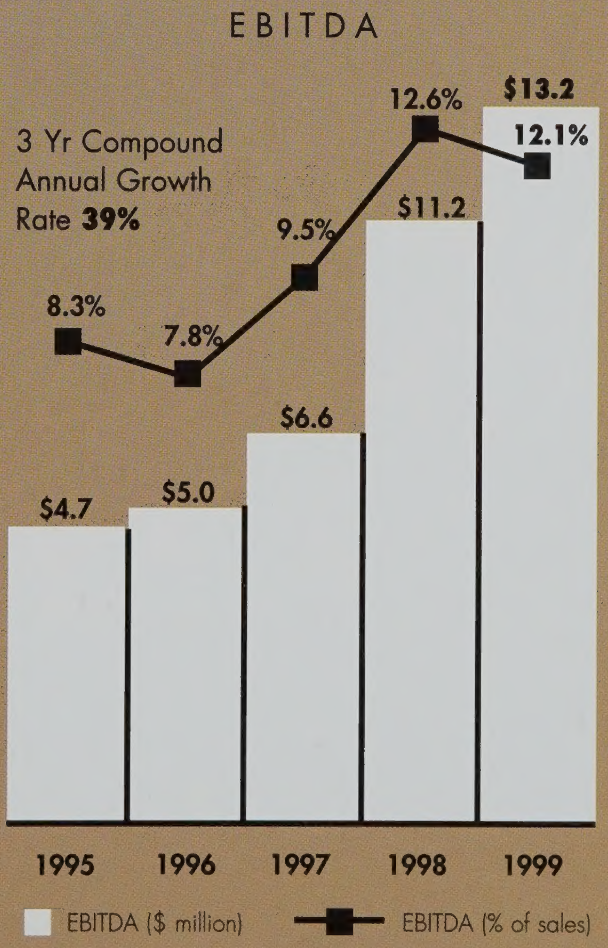
	1995	1996	1997	1998	1999
Operating Results					
Revenue	$55,991	$63,348	$69,678	$88,663	$108,977
EBITDA $	$ 4,656	$ 4,956	$ 6,619	$11,205	$ 13,222
EBITDA %	8.3%	7.8%	9.5%	12.6%	12.1%
Net Earnings $	$ 1,636	$ 1,132	$ 1,828	$ 4,416	$ 6,114
Financial Position					
Working Capital	$ 4,828	$ 4,901	$ 5,682	$19,674	$ 16,842
Current Ratio	1.8	1.7	1.8	3.6	3.1
Subordinated and Senior Debt	$10,621	$14,598	$ 14,299	-	-
Total Liabilities	$20,368	$ 20,881	$ 19,269	$ 8,627	$ 8,796
Other Statistics					
Number of Stores:					
Shopping Mall/Street-Front	40	44	46	46	48
Power Centre	3	4	6	11	21
Total	43	48	52	57	69
Sales					
Shopping Mall/Street-Front	44,403	50,829	52,591	59,561	64,973
Power Centre	11,588	12,519	17,087	29,102	44,004
Total	55,991	63,348	69,678	88,663	108,977
Retail Square Footage:					
Shopping Mall/Street-Front	60,410	68,149	71,320	72,462	78,860
Power Centre	20,000	26,340	37,567	72,109	139,084
Total	80,410	94,489	108,887	144,571	217,944
Sales per Square Foot: (1)					
Shopping Mall/Street-Front	$ 770	$ 791	$ 754	$ 828	$ 859
Power Centre	$ 644	$ 540	$ 535	$ 531	$ 417
Total	$ 740	$ 724	$ 685	$ 700	$ 601
# Employees at fiscal year end	593	648	604	683	782

1) Sales per square foot is the result of dividing total sales for the period by average square feet, which represents the average of square feet at the beginning and end of the fiscal period. For the year ended June 26, 1999, power centre sales per square foot would have been $451 if the square footage and sales dollars of the three power centres opened during the last 39 days of the fiscal year were excluded.


REVENUE
(in millions of dollars)
3 Yr Compound Annual Growth Rate **20%**
56.0
63.3
69.7
88.7
109.0
1995
1996
1997
1998
1999
Power Centre
Shopping Mall & Street Front


RETAIL SQUARE FOOTAGE
3 Yr Compound Annual Growth Rate **32%**
80,410
94,489
108,887
144,571
217,944
1995
1996
1997
1998
1999
Power Centre
Shopping Mall & Street Front


NET EARNINGS
(in millions of dollars)
3 Yr Compound Annual Growth Rate **75%**
1.6
1.1
1.8
4.4
6.1
1995
1996
1997
1998
1999


EBITDA
3 Yr Compound Annual Growth Rate **39%**
8.3%
7.8%
9.5%
12.6%
12.1%
$4.7
$5.0
$6.6
$11.2
$13.2
1995
1996
1997
1998
1999
EBITDA ($ million)
EBITDA (% of sales)

The nature of fashion retailing is never to rest on your laurels. Since its founding in 1972 as a small Toronto-area leather and suede garment wholesaler, Danier has grown into Canada's largest manufacturer and retailer of fashionable leather and suede products. Now, the company plans to expand on this base, to position itself at the forefront of fashion and to heighten its brand recognition among targeted consumer groups.

Danier aims at being the ultimate in leather and suede fashion.

Our strategy in 2000 is to focus on Danier's distinctive, modern styling as it is showcased throughout a broad range of product categories. Therefore, we will continue catering to our customers' desire for that perfect wardrobe piece — the latest couture-level coat, suede shirt or slit leather skirt — and we will further address the need for matched knit and cloth co-ordinates, handbags, carrying cases and luggage, accessories and gift items, as well as street-active outerwear and sportswear.

Brand advertising and promotion will reflect this upscale synergy of the entire Danier line, which is reinforced by the physical design of all 69 of our retail outlets. Store elements are integrated to mirror the fashion message through such uniform features as modern slate floors, pale wood counters, and uniquely designed display and lighting fixtures, as well as distinctive point of purchase artwork and customized background music.

Unique Style

Danier products appeal to the consumer's sense of touch, sight, and aesthetics. The buyer, who is the final arbiter, can see that the product looks beautiful, feels marvellous to the hand, and is styled in keeping with the latest fashion trends.

Value

Romancing the customer with a wonderful product is often the sale clincher, and offering top-of-the-line items at desirable prices is Danier's forte.

The company's growing size brings with it increasing economies of scale that affect all levels of the manufacturing and distribution process. And Danier's enviable vertically integrated structure — which allows for total control of the product, from raw material to final retail sale — in essence eliminates any middleman price increments, which means the ultimate cost of the product is as low as it can possibly be.

The Shopping Experience

At one time, the mere presence of desirable goods, an attractive venue, and pleasant sales staff was more than enough to make a retail operation a thriving concern. Today, however, the successful retailer has to be more and do more than ever before to retain customer loyalty as well as bring new customers in through the door.

Cognizant of this fact, Danier holds regular training and product knowledge seminars for its sales force, provides product care and cleaning resources for its customers, rewards regular shoppers through exclusive promotions, offers the proprietary Danier Account card, and has established a creative website to further its customer outreach.

We also regularly employ mystery shoppers to help us assess our on-going performance, ensuring that we also maintain first-class execution of the retailing basics for our customers.

Vertical Integration

- Danier's unique corporate structure allows it to control all aspects of raw material sourcing, product manufacture and distribution, retail sales, and follow-up customer response.
- Our specialization in leather and suede gives the company complete flexibility to source material year-round, thereby achieving the greatest possible cost savings.
- The circumvention of middleman pricing minimizes the cost to consumers — Danier's retail prices are typically 30% less than its direct competitors' — making the product commercially appealing, while maximizing company revenues.
- Tight time lines and turn-around capabilities give Danier the luxury of late-stage decision making, and lets the company react instantly to sudden market changes.
- Immediate feedback from the sales floor results in consumer-accurate adjustments at all levels of the design, distribution and marketing process.

Teamwork

- Strong, long-term leadership imparts a stabilizing effect on all operations. In a world where people change careers often, Danier's employee longevity is remarkable. Senior management, in particular, boasts an average service record of 10 years or more with the company.

In-House Design

- All product development is done in-house by a seasoned, international design team. Styles are driven by international trends and Danier best-sellers and are sold exclusively through Danier stores.

In House Marketing

- Danier's advertising appropriately reflects the sleek cachet of leather and suede, and employs modern lifestyle imagery that is immediately recognizable and relevant to today's consumers.

Customer Database

- At present, Danier has more than a million customer listings in its database. Information contained within the database drives management decisions regarding marketing strategies, merchandising decisions and store location site analysis.

Management Information Systems

- As leaders in the use of management information systems, comprehensive, detailed data capture results in information which can be customized to assess everything from the day-to-day sales performance of a single store to national retail traffic patterns.
- Our systems allow immediate and daily analysis of all facets of Danier's design, production, and retail procedures. The network also allows for swift corporate communications, can track the progress of a new product through all departments from inception to sale, and is used as a regular support tool for individual store operations.

Distribution

- A state-of-the-art distribution system, centered in Danier's Toronto headquarters, moves products to the stores faster, makes stock balancing more productive, and allows flow patterns to be established or enhanced at will.

The challenge and ultimate joy of business is how to make what you do even bigger and better without sacrificing the bottom line. Danier plans to respond to this challenge in a variety of innovative ways.

First is the effective multi-channeling of the Danier brand. We want to develop an even tighter interplay between our stores and factory outlet power centres, orchestrated by our merchandising, marketing, and store operations departments. Second, we aim to increase our customer contact through the traditional routes of advertising, in-store point-of-purchase and direct mail, as well as through new media such as email and our recently established website.

Most exciting for us is our introduction of E-commerce. As of November, 1999, visitors from around the world can "drop by" Danier's website virtual store, use web cameras to zoom in on various items of interest, and purchase them directly on-line. Thus, without building a single new store, Danier will be instantly transformed into a global retailer.

Expansion from within is another strategy with an eye to the future. We believe consumer demand for leather goods is growing, and our unique expertise in quality leather and suede production fits right in with this picture. We therefore will be capitalizing on this trend, with planned extensions to our fashion, travel, and business accessories line, a more sophisticated approach to our men's wear collection, and further development of our Couture and Plus labels.

On the retail front, we remain bullish about our power centre concept: a chain of high-volume, big-box stores that offer Danier's complete range in selection and depth. Following a careful site selection process, we will be opening new locations in 2000, hard on the heels of our latest Factory Outlet Flagship, right next-door to our brand new Toronto headquarters.

With success comes responsibility; in September 1999, Danier announced a new partnership with Foster Parents Plan of Canada. Involving Danier stores and Head Office employees, the alliance provides support to 80 children, their families and their communities in the neediest parts of the world. We believe in the work that Foster Parents Plan is doing and we're looking forward to making a contribution and to building a long term relationship.

The following discussion and analysis is based upon and should be read in conjunction with the company's consolidated financial statements and the notes. In the discussion that follows, "1999" refers to the 52-week period ended June 26, 1999 and "1998" refers to the 52-week period ended June 27, 1998.

HIGHLIGHTS

- Net earnings of $6.1 million up 38% from 1998.
- Revenue growth of 23% to $109 million.
- Opened 10 power centre locations and five shopping mall stores adding approximately 73,400 square feet of retail space net of three store closures.
- Successfully opened first U.S. mall store on Long Island, New York.
- Comparable-store sales growth of 4.9% on top of comparable sales growth of 13.3% in 1998.
- Power centre locations represented 40% of total sales compared with 33% in prior year.
- EBITDA (earnings before interest, taxes, depreciation, and amortization) ratio to revenue of 12.1% makes Danier the leader among Canadian publicly traded specialty apparel retailers two years in a row.
- Cash flow from operations of $6.2 million compared with $1.9 million in prior year.
- Capital investment of $7.3 million, excluding land, building, and initial renovations for new head office, distribution centre, manufacturing facility, and retail store.
- Virtually debt-free balance sheet provides flexibility to act on buying opportunities for leather and finished garments.

OVERVIEW

Danier Leather Inc. (Danier) is a growing integrated designer, manufacturer, and retailer of high-quality, fashion leather and suede clothing and accessories. The company's merchandise is marketed exclusively under the well-known Danier brand name and is available only at its 69 shopping mall, street-front stores, and power centre outlets. Since entering the retail business 25 years ago, Danier has generated net earnings in every year.

During the year, the company nearly doubled the number of its power centre outlets, continuing the successful rollout of its strategy to focus on these highly profitable large formats, planted the seeds for the next growth vehicle with the opening of a U.S. location on Long Island, and laid the foundation for efficient future expansion with the purchase of an existing building to replace the company's head office, retail store, manufacturing facility, and distribution centre.

Over the next several years Danier's growth strategy will focus on the following:

- Power Centres

A power centre is a group of large retail outlets ranging from 5,000 to 100,000 square feet. Power centre retailing is ideally suited to Danier's products and existing manufacturing and distribution systems. The average size of a Danier power centre location is 6,600 square feet compared with 1,600 square feet for a shopping mall store. Management believes that power centres (versus regional malls) will be the major retail growth area during the next few years and that the Canadian market can support 30 more Danier power centre locations in addition to the 21 already open.

Canadian Mall Stores

Danier's 45 Canadian shopping mall stores, which are located in better regional malls, and two street-front locations comprise a total of 76,626 square feet. Danier plans to pursue a conservative growth strategy opening one or two shopping mall locations per year.

Product and Line Extensions

Accessories sales grew by approximately 83% in 1999 and represented 6.0% of total company revenue. During the next few years, management intends to grow the Accessories business to 15% of total company revenue. In addition, Danier plans to expand its Couture line for higher-end discerning customers.

As Danier executes these growth strategies, it also will pursue two opportunities expected to contribute to its future growth:

United States

Danier's first U.S. location opened during the fall of 1999. Management believes that Danier is well positioned to succeed in the United States with its differentiated product offering, high-quality advertising and package of quality, style, and price.

E-commerce

The Internet presents a great opportunity to promote the Danier brand, create an interactive one-to-one relationship with customers, and increase sales. Just as power centres allowed Danier to expand the market for leather beyond the traditional shopping mall, the Internet is expected to be a new channel of distribution that can expand Danier's market beyond Canada and the United States to the global marketplace.

RESULTS OF OPERATIONS

Revenue broke the $100 million mark, increasing by 23% or $20.3 million to $109.0 million in 1999 from $88.7 million in 1998. Comparable-store sales increased by 4.9% on top of a 13.3% increase in 1998. During 1999, Danier operated a total of 69 locations, including 48 shopping mall and street-front stores and 21 power centre locations. Danier's total retail square footage increased by 51% to 217,944 square feet from 144,571 square feet in 1998.

Power centre revenues increased by 51% or $14.9 million to $44.0 million in 1999 from $29.1 million in 1998. Power centre comparable-store sales increased by 6.5% in 1999 on top of a 17.0% comparable-store sales gain in the prior year. Danier opened 10 power centre locations almost doubling the number of outlets in operation to 21 at the end of 1999 from 11 in 1998. Power centre retail square footage increased by 93% to 139,084 square feet in fiscal 1999 compared with 72,109 square feet in 1998. Power centres accounted for approximately 40% of total 1999 sales compared with 33% in the prior year. Power centre sales per square foot in 1999 were $417 compared with $531 in the prior year. The first few power centres that the company opened in prior years were in the most attractive locations. As the company opens new power centre locations, they are each expected to generate an average of $1.8 million to $2.0 million of revenue in their first full year of operation or between $275 to $310 per square foot.

Shopping mall and street-front stores sales increased by 9% or $5.4 million to $65.0 million in 1999 from $59.6 million in 1998. Shopping mall and street-front comparable-store sales increased by 4.3% in 1999 on top of a 12.4% comparable-store sales gain in the prior year. The company's strategy is to open stores in strong performing shopping malls and close locations which do not meet company profitability requirements. Accordingly, Danier opened five shopping mall stores during the year, including its first U.S. site on Long Island, and closed three others. Of the three stores closed, one was located in an

under-performing shopping mall, one was a temporary location, and one was relocated to a better performing shopping mall in the trade area. Shopping mall and street-front store square footage increased by 9% to 78,860 square feet from 72,462 in the prior year and sales per square foot increased by 4% to $859 from $828 in the prior year.

Gross profit increased by 23% to $52.7 million, compared with $42.9 million. Gross profit as a percentage of revenue was 48.3% compared with 48.4% in the prior year. In part, the slight decline reflects the higher proportion of sales attributable to power centre outlets where margins are lower than shopping mall stores. This effect, however, was offset by higher margins in Canadian shopping mall stores. Danier's shrink rate, at less than 1% of sales, remains below the industry average and is the result of strong internal controls and cost-effective loss prevention programs.

Selling, general and administrative expenses decreased as a percentage of revenue to 38.3% in 1999 compared with 38.4% in 1998 and 40.0% in 1997. The decrease is attributable to the lower cost structure (as a percentage of revenue) of operating power centre locations compared with mall stores and spreading the existing administrative cost infrastructure over a larger base of locations.

Interest income was $48,000 compared with interest expense of $1.2 million in 1998. The change is primarily due to the repayment of debt following Danier's initial public offering in May 1998.

EBITDA increased by 18% to $13.2 million or 12.1% of revenue in 1999 compared with $11.2 million or 12.6% of revenue in 1998. In 1999, Danier's EBITDA ratio continued to be the highest among Canadian publicly traded specialty apparel retailers.

Income tax rate increased to 44.3% in 1999 from 42.0% in 1998. This increase is primarily attributable to the non-deductibility of start-up losses from the United States operation which is carried on through a wholly owned subsidiary corporation.

Net earnings for 1999 increased by 38% to a record $6.1 million compared with $4.4 million in 1998. Earnings per share were $0.84 in 1999 compared with $0.72 in 1998 (adjusted to reflect the number of shares outstanding following the IPO, repayment of debt, and investment of remaining cash at an imputed interest rate of 4%).

LIQUIDITY AND CAPITAL RESOURCES

Danier maintained its solid financial position in 1999 while supporting a significant expansion and capital investment program. Cash generated by operations increased to $6.2 million in 1999 from $1.9 million in 1998. The improvement is attributable to increased net earnings and reduced growth in inventory. Same store inventory levels were 8.5% lower than 1998.

Working capital of $16.8 million at the end of 1999 decreased by $2.8 million from 1998 as a result of the company purchasing existing land and building for relocating its head office, distribution centre, manufacturing facility and retail store (Distribution Facility).

Danier is virtually debt-free with the exception of capital leases of approximately $1.0 million in 1999 compared with $1.2 million in 1998. The company's debt-to-equity ratio was 0.03-to-1 in 1999 compared with 0.05-to-1 in 1998.

Capital investment of $11.7 million for 1999 included the addition of 10 power centre outlets, five shopping mall stores, renovations at six shopping mall locations, and land, building and improvements for the Distribution Facility.

For 2000, Danier plans capital investments of approximately $10.0 million to add four power centre outlets, four shopping mall stores, renovations at four shopping mall locations, completion of the Distribution Facility, and further investment in information technology for E-commerce, database marketing and merchandise planning. The company will fund these capital investments from existing working capital, internally generated cash flow, and an existing term bank facility.

The company has available credit facilities to a maximum of $34 million with its bank. The first facility is a $30 million revolving operating line committed until October 31, 2001. The second facility is a four-year $4 million revolving capital loan facility that declines by $1 million per year beginning June 30, 2000. As at June 26, 1999, there were no cash borrowings under these facilities.

Management believes that cash flow from operations and existing credit facilities will provide the company with sufficient financial resources to fund its working capital needs and planned capital investment program for fiscal 2000.

RISKS AND UNCERTAINTIES

Danier is subject to certain risks and uncertainties that are common in the retail apparel industry. These risks are mitigated to some extent by Danier's vertical integration from design, manufacture, and retail. Vertical integration provides flexibility, cost savings, and quick response to rapidly changing fashion trends.

Fashion and Apparel Industry Risks

The company's success is based in part on its ability to identify and interpret fashion trends. The design team travels the world's leading fashion markets and attends major trade shows to enhance its ability to define and predict trends. In addition, Danier's vertically integrated operations enable it to execute a 'test and run' strategy which results in repeated runs of fast sellers while minimizing the quantity of slower sellers thus resulting in fewer markdowns.

Fashion and Apparel Industry Risks: (continued)

Economic downturns or uncertainties regarding future economic prospects can impact consumer spending. Extreme changes in weather can also affect consumer spending habits. The company implements effective promotional marketing programs and can enhance clearance through factory outlets to appeal to the value conscious consumer.

As with many others in the retail industry, the company's business is seasonal in nature. Historically, approximately 40% of revenues occur during the second quarter (October – December) which includes the Christmas selling season. The third quarter is also significant and historically accounts for approximately 30% of revenues. During the third quarter, the company can adjust its marketing and promotional programs to be more or less aggressive as the situation requires. In addition, accessories, sportswear, and a spring collection help spread sales throughout the year.

Merchandise Sourcing

The company has several sources of supply in Europe, New Zealand, and Asia for raw materials. In addition, the company uses several sub-contractors based in Asia to manufacture finished goods. The company constantly seeks out new sources of supply and sub-contractors to minimize the impact of potential disruptions. The company has not historically experienced material adverse effects from foreign sourcing of raw materials and finished goods.

Competition

The retail apparel industry is highly competitive. Danier's vertically integrated structure enables it to offer competitively priced distinctive designs that are only available at its company-owned stores. In addition, Danier has secured prime locations in many of Canada's premier shopping malls and power centres.

Foreign Currency

A significant portion of the company's raw material and imported finished goods purchases are denominated in U.S. dollars. The company's foreign currency exposure is limited to fluctuations between the Canadian and U.S. dollar. The company does not use forward exchange contracts or hedges but may from time to time lock in the exchange rate at the time a letter of credit is opened.

Year 2000

In calendar 1997, Danier began assessing how the Year 2000 issue would affect its operations. The MIS (management information systems) department, in conjunction with the company's major computer software and hardware supplier, identified and evaluated internal computer systems, applications and equipment requiring modifications, and those systems that interact with third parties for Year 2000 readiness.

With the exception of two non-critical store level systems, all of the company's merchandising, manufacturing, design, accounting and financial systems are Year 2000 compliant. All systems are expected to be Year 2000 compliant by the end of September 1999. Testing and contingency planning is ongoing and will continue through calendar 1999.

Interaction between the company's computer systems and those of third parties is primarily for credit card authorization and processing. The third parties believe they are, or are taking steps necessary to be, Year 2000 compliant.

The cost of ensuring Year 2000 compliance is not expected to have a material adverse impact on the company's financial position or results of operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the company, including those related to the efforts of suppliers, or other third parties, will be fully resolved.

OUTLOOK

Danier is well positioned to grow with its strong balance sheet, consistently profitable operations, vertically integrated structure, new and efficient Distribution Facility and network of shopping mall, street-front and power centre locations.

Danier's plans for fiscal 2000 are to add four power centre locations, four shopping mall stores, and overhaul its web site to allow for e-commerce. The addition of four power centre locations is less than the desired objective of adding eight to ten locations per year because of a short-term lack of desirable locations. However, power centre retailing in Canada is expected to grow as more leading retailers rollout their power centre concepts. Danier believes that it will benefit from this trend as real estate developers respond by building more power centres in good locations. As more power centres in good locations are built over the next 12 to 18 months, the company plans to resume its desired growth rate of adding eight to ten locations per year.

During fiscal 2000, Danier also plans to further enhance its merchandise planning systems and invest in database marketing to drive sales, lower costs, and achieve better one-to-one communication with its customers. Danier's outlook for profitable growth remains positive.

The accompanying financial statements and other financial information contained in this annual report are the responsibility of management. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles using management's best estimates and judgements based on currently available information, where appropriate. The financial information contained elsewhere in this annual report has been reviewed to ensure consistency with that in the financial statements.

Management is also responsible for a system of internal control which is designed to provide reasonable assurance that assets are safeguarded, liabilities are recognized and that financial records are properly maintained to provide timely and accurate financial reports.

The Board of Directors is responsible for ensuring that management fulfills its responsibility in respect of financial reporting and internal control. The Audit Committee of the Board, which is comprised solely of unrelated and outside directors, meets regularly to review significant accounting and auditing matters with management and the independent auditors and to review the interim and annual financial statements.

The financial statements have been audited by PricewaterhouseCoopers LLP, the independent auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The Auditors' Report outlines the nature of their examination and their opinion on the financial statements. PricewaterhouseCoopers LLP have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the financial reporting.

Jeffrey Wortsman

Jeffrey Wortsman
President and CEO

Bryan Tatoff C.A.
Vice-President, CFO
and Secretary

To the Shareholders of Danier Leather Inc.

We have audited the consolidated balance sheets of Danier Leather Inc. as at June 26, 1999 and June 27, 1998 and the consolidated statements of earnings, retained earnings (deficit) and statements of changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at June 26, 1999 and June 27, 1998 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants
Toronto, Ontario
August 20, 1999

Auditor's Report to the Shareholders

Consolidated Balance Sheets

(thousands of dollars)

	June 26, 1999	June 27, 1998
ASSETS		
Current Assets		
Cash and short-term deposits	$ 1,628	$ 6,753
Accounts receivable	369	591
Inventories (Note 2)	22,659	19,784
Prepaid expenses	242	185
	24,898	27,313
Other Assets		
Capital assets (Note 3)	14,810	5,429
Goodwill (Note 4)	369	383
Deferred income taxes	1,578	2,247
	$ 41,655	$ 35,372
LIABILITIES		
Current Liabilities		
Bank overdraft (Note 5)	$ -	$ -
Accounts payable and accrued liabilities	6,336	5,867
Income taxes payable	1,473	1,546
Current portion of long-term debt (Note 6)	247	226
	8,056	7,639
Long-term debt (Note 6)	740	988
	8,796	8,627
SHAREHOLDERS' EQUITY (Note 7)		
Share capital	25,204	25,204
Retained earnings	7,655	1,541
	32,859	26,745
	$ 41,655	$ 35,372

Approved by the Board

E Hawken

Edwin F. Hawken
Director

Jeffrey Wortsman

Jeffrey Wortsman
Director

Consolidated Statements of Earnings

(thousands of dollars)	For the Year Ended June 26, 1999	For the Year Ended June 27, 1998
Revenue	$ 108,977	$ 88,663
Cost of sales (Note 8)	56,313	45,731
Gross profit	52,664	42,932
Selling, general and administrative expenses (Note 8)	41,740	34,085
Earnings before interest and income taxes	10,924	8,847
Interest expense (income)	(48)	1,234
Earnings before income taxes	10,972	7,613
Provision for income taxes (Note 9)		
Current	4,778	3,494
Deferred	80	(297)
	4,858	3,197
Net earnings for the year	**$ 6,114**	**$ 4,416**
Earnings per share (Note 10)		

Consolidated Statements of Retained Earnings (Deficit)

(thousands of dollars)	For the Year Ended June 26, 1999	For the Year Ended June 27, 1998
Retained earnings (deficit), beginning of year	**$ 1,541**	**$ (934)**
Net earnings for the year	6,114	4,416
Stock dividend, redemption and cancellation of share capital (Note 7)	-	(41,321)
Reduction of stated capital of subordinate voting shares (Note 7)	-	42,746
Share capital issuance costs and underwriters' fees net of income taxes (Note 7)	-	(3,366)
Retained earnings, end of year	**$ 7,655**	**$ 1,541**

Consolidated Statements of Changes in Financial Position

(thousands of dollars)	For the Year Ended June 26, 1999	For the Year Ended June 27, 1998
Cash flows from operating activities:		
Net earnings for the year	$ 6,114	$ 4,416
Items not affecting cash:		
Amortization	2,298	2,358
Loss on disposal of capital assets	28	16
Deferred income taxes	80	(297)
	8,520	6,493
Change in operating assets and liabilities:		
Accounts receivable	222	(373)
Inventories	(2,875)	(7,665)
Prepaid expenses	(57)	180
Accounts payable and accrued liabilities	469	2,730
Income taxes payable	(73)	555
Net cash provided by operating activities	6,206	1,920
Cash flows from financing activities:		
Share capital issuance proceeds	-	67,950
Share capital issuance costs	-	(5,803)
Stock dividend, redemption and cancellation of share capital	-	(41,321)
Repayment of term loan	-	(5,000)
Repayment of subordinated debt	-	(9,299)
Deferred income taxes related to the IPO	589	487
Obligations under capital leases	(227)	1,214
Net cash provided by financing activities	362	8,228
Cash flows from investing activities:		
Acquisition of capital assets	(11,693)	(2,553)
Net cash used for investing activities	(11,693)	(2,553)
Net cash (outflow) inflow	(5,125)	7,595
Cash and short-term deposits (bank overdraft), beginning of year	6,753	(842)
Cash and short-term deposits, end of year	$ 1,628	$ 6,753

1. Significant accounting policies:

(a) Basis of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies. On consolidation, all intercompany transactions and balances have been eliminated.

(b) Year-end:

The fiscal year end of the Company consists of a 52 or 53 week period ending on the last Saturday in June each year. The fiscal year for the financial statements presented is the 52-week period ended June 26, 1999, and comparably the 52-week period ended June 27, 1998.

(c) Inventories:

Inventories are valued at the lower of cost or market. Cost is determined on a first-in, first-out basis. For finished goods and work-in-process, market is defined as net realizable value; for raw materials, market is defined as replacement cost.

(d) Capital assets:

Capital assets are recorded at cost and annual amortization is provided using the declining balance method as follows:

Building	4%
Furniture and equipment	20%
Automobiles	30%
Computer hardware and software	30%

Leasehold improvements are amortized on a straight-line basis over the greater of the term of the lease or five years, unless the Company has decided to terminate the lease, at which time the related leasehold improvements are amortized to the date of lease termination.

(e) Goodwill:

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and is amortized on a straight-line basis over 40 years. The Company periodically reviews the carrying value of goodwill by considering the expected future operating cash flows before interest and taxes. Any permanent impairment in the value of goodwill is written off against earnings.

(f) Store opening costs:

Expenditures associated with the opening of new stores, other than furniture and fixtures, equipment, and leasehold improvements are expensed as incurred.

(g) Translation of foreign currencies:

Subsidiary accounts and accounts in foreign currencies are translated into Canadian dollars using the temporal method. Under this method, monetary balance sheet items are translated at the rates of exchange in effect at year-end and non-monetary items are translated at historical exchange rates. Revenues and expenses (other than amortization, which is translated at the same rates as the related capital assets) are translated at the rates in effect on the transaction dates or at the average rates of exchange for the year. The resulting net gain or loss is included in the statement of earnings.

(h) Financial instruments:

The carrying value of the Company's financial assets and liabilities approximate their fair value.

(i) Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimated.

(j) Comparative figures:

Certain of the June 27, 1998 comparative figures were reclassified to conform with the current year's presentation.

2. Inventories: (thousands of dollars)

	June 26, 1999	June 27, 1998
Raw materials	$ 1,937	$ 1,477
Work-in-process	1,153	589
Finished goods	19,569	17,718
	$ 22,659	$ 19,784

3. Capital assets: (thousands of dollars)

	June 26, 1999			June 27, 1998		
	Cost	Accumulated Amortization	Net Book Value	Cost	Accumulated Amortization	Net Book Value
Land	$ 1,000	$ -	$ 1,000	$ -	$ -	$ -
Building (a)	3,363	-	3,363	-	-	-
Furniture and equipment	5,382	3,226	2,156	4,443	2,833	1,610
Leasehold improvements	10,185	4,409	5,776	5,850	3,946	1,904
Computer hardware and software	4,657	3,090	1,567	3,224	2,532	692
Assets under capital lease:						
Leasehold improvements	1,334	386	948	1,334	129	1,205
Computer hardware and software	-	-	-	179	161	18
	$25,921	$ 11,111	$ 14,810	$15,030	$ 9,601	$ 5,429

(a) On December 30, 1998, the Company acquired land and building to replace its existing leased head office, distribution centre, manufacturing facility, and retail store located at 365 Weston Road in Toronto. As at June 26, 1999, the building was under renovation and no amortization was recorded. Renovations are expected to be completed by the end of July 1999 at which time amortization will begin.

4. Goodwill: (thousands of dollars)

Goodwill of $369 (June 27, 1998 - $383) is stated at cost less accumulated amortization of $178 (June 27, 1998 - $164).

5. Bank indebtedness: (thousands of dollars)

As at June 26, 1999, the Company had credit facilities available to a maximum amount of $34,000. These credit facilities consist of an operating line of credit for general corporate purposes to a maximum amount of $30,000, bearing interest at prime plus 0.25% and a $4,000 revolving capital loan facility bearing interest at prime plus 0.75% which declines by $1,000 per year beginning on June 30, 2000. The operating line of credit is committed until October 31, 2001 and the revolving capital loan facility expires on June 30, 2003.

Security provided includes a general security agreement, floating charge debenture over all assets of the business and a fixed collateral charge over land and building located at the Company's head office/distribution facility.

6. Long-term debt: (thousands of dollars)

Long-term debt consists of capital lease obligations of $987 (June 27, 1998 - $1,214) less amounts due within one year of $247 (June 27, 1998 - $226). Security provided for the capital lease obligation includes a second charge on all assets of the Company. The following is a schedule of minimum lease payments under capital leases.

	June 26, 1999
2000	$ 323
2001	323
2002	323
2003	179
Total minimum lease payments	1,148
Less: Amount representing interest at a weighted average rate of 8.6%	161
Present value of capital lease obligations	987
Less: Amount due within one year	247
	$ 740

7. Capital stock:

Capital stock consists of the following:

	June 26, 1999	June 27, 1998
Authorized		
1,224,329 Multiple Voting Shares		
Unlimited Subordinate Voting Shares		
Unlimited Class A Preference Shares		
Issued		
1,224,329 Multiple Voting Shares (June 27, 1998 - 1,224,329)	$ 12	$ 12
6,040,000 Subordinate Voting Shares (June 27, 1998 - 6,040,000)	25,204,395	25,204,395
	$ 25,204,407	$ 25,204,407

During the years ended June 26, 1999 and June 27, 1998 the following capital transactions occurred:

a) On November 7, 1997, all of the issued and outstanding cumulative redeemable retractable, non-voting preference shares were donated to the Company and cancelled.

b) On May 6, 1998, the articles of incorporation ("articles") of the Company were amended to create Class B Preference Shares, issuable in series. The first series consisted of 3,608,748 Class B Preference Shares, Series X (authorized) and the second series consisted of 1,202,917 Class B Preference Shares, Series Y (authorized).

c) On May 14, 1998, the warrant holders exercised 1,202,915 warrants for 1,202,915 Class A Common Shares for consideration of $0.0001 per share. In addition, 2 Common Shares were converted into 2 Class A Common Shares.

d) On May 14, 1998, a stock dividend was declared on all of the Common Shares in the aggregate amount of $1 by the issue of 3,608,748 fully paid Class B Preference Shares, Series X. A stock dividend was also declared on all of the Class A Common Shares in the aggregate amount of $9,182,468 by the issue of 1,202,917 fully paid Class B Preference Shares, Series Y.

e) On May 15, 1998, all of the Class A Common Shares were redeemed by the Company. The excess of the amount paid over the paid-up capital of

$4,591,124 was charged to retained earnings.

f) On May 19, 1998 the articles were amended to create three new classes of shares: (i) an unlimited number of Class A Preference Shares; (ii) 1,224,329 Multiple Voting Shares; and (iii) an unlimited number of Subordinate Voting Shares. Also on May 19, 1998, all of the 3,608,748 Common Shares were converted into 1,224,329 Multiple Voting Shares, and the classes of Common Shares and Class A Common Shares were cancelled.

g) On May 20, 1998, the Company issued 6,040,000 Subordinate Voting Shares in connection with its initial public offering at a gross price of $11.25 per share for proceeds of $64,584,413, net of underwriters' fees, issue expenses and related deferred income tax of $1,950,000. Also on May 20, 1998 all of the Class B Preference Shares, Series X and Series Y were redeemed and cancelled. The excess of the amount paid of $27,547,403 over the paid-up capital was charged to retained earnings.

h) Following the reorganization of share capital described above, the stated capital of the Subordinate Voting Shares was reduced by $42,745,605 to eliminate the deficit. The authorized capital stock of the Company consisted of 1,224,329 Multiple Voting Shares, unlimited number of Subordinate Voting Shares and an unlimited number of Class A Preference Shares. The Multiple Voting Shares and Subordinate Voting Shares have identical attributes except that the Multiple Voting Shares entitle the holder to ten votes per share and the Subordinate Voting Shares entitle the holder to one vote per share. Each Multiple Voting Share is convertible at any time, at the holder's option, into one fully paid and non-assessable Subordinate Voting Share. The Multiple Voting Shares are subject to provisions whereby, if a triggering event occurs then each Multiple Voting Share is converted into one fully paid and non-assessable Subordinate Voting Share. A triggering event may occur if Mr. Jeffrey Wortsman: (i) dies; (ii) ceases to be a senior officer of the Company; (iii), sells his Multiple Voting Shares to an unrelated party; (iv) ceases to own less than 5% of the aggregate number of Multiple Voting Shares and Subordinate Voting Shares outstanding; or (v) owns less than 918,247 Multiple Voting Shares and Subordinate Voting Shares combined.

7. Capital Stock (cont.):

i) On May 20, 1998 the Company established an employee stock option plan which provides for the issuance of up to 700,000 Subordinate Voting Shares. As at June 26, 1999 there were a total of 507,500 options granted (June 27, 1998 – 503,500) at an exercise price of $11.25. There were no options exercised during the fiscal years ended June 26, 1999 and June 27, 1998. Of these options, 483,500 options vest in equal annual amounts over four years and expire ten years after the date of the grant, and the remaining 24,000 vest after one year and expire ten years after the date of the grant. Options granted under the plan may not have an exercise price less than the market value of the Subordinate Voting Shares on the date the option is granted.

8. Amortization: (thousands of dollars)

Amortization of $2,298 (June 27, 1998 - $2,358) is included in cost of sales, selling, general and administrative expenses.

9. Income taxes:

The Company's effective income tax rate consists of the following:

	June 26, 1999	**June 27, 1998**
Combined basic federal and provincial rate	44.6%	44.6%
Manufacturing and processing credit	(2.0%)	(1.9%)
Effect of foreign operating losses	1.5%	-
Other	0.2%	(0.7%)
	44.3%	42.0%

10. Earnings per share:

	June 26, 1999	**June 27,1998**
Basic earnings per share	$ 0.84	n/a
Fully diluted earnings per share	$ 0.81	n/a
Adjusted basic earnings per share	n/a	$ 0.72

Basic earnings per share for the year ended June 26, 1999 were calculated based on the weighted average number of Multiple Voting Shares and Subordinate Voting Shares outstanding during the year. Earnings per share have not been calculated for the year ended June 27, 1998 as it would not provide meaningful information based on dissimilar share capital.

Fully diluted earnings per share accounts for the stock options (note 7(i)) as if they had been exercised at the beginning of the fiscal year assuming an imputed interest rate of 5%.

Adjusted earnings per share for the year ended June 27, 1998 were calculated as though the 6,040,000 Subordinate Voting Shares issued pursuant to the initial public offering had been outstanding for the full year and the net proceeds of $20.8 million (after taking into consideration underwriters' fees, share issue costs and amounts paid under the capital reorganization described in note 7) were used to retire subordinated debt and term loan outstanding at the beginning of the year and that remaining cash earned interest at an imputed rate of 4% per year.

11. Commitments & Contingencies: (thousands of dollars)

a) Legal proceedings

In the course of its business, the Company from time to time becomes involved in various claims and legal proceedings. In this regard, the Company and certain of its directors and officers have been served with a Statement of Claim commencing proceedings under the Ontario Class Proceedings Act. The Claim was filed with the Court by a single individual investor. The plaintiff's claim states that he purchased 5,000 subordinate voting shares at the time of the Company's initial public offering in May 1998. Essentially, the suit seeks rescission of the plaintiff's purchase of shares made in May 1998, or alternatively, that damages be paid equal to the diminution in value of the shares. No proceedings have been taken by the plaintiff to date to seek to certify a class in connection with this claim. No amounts have been provided in the accounts of the Company in respect of this matter. The Company strongly believes the suit is wholly without merit and will vigorously defend it, should the plaintiff proceed with the action.

11. Commitments & Contingencies (cont.): (thousands of dollars)

(b) Operating leases

Minimum rentals for the next five fiscal years and thereafter, excluding rentals based upon revenue are as follows:

2000	$ 6,190
2001	$ 5,511
2002	$ 4,894
2003	$ 4,302
2004	$ 3,608
Thereafter	$ 12,193

(c) Letters of credit

The Company had outstanding letters of credit in the amount of $3,689 (June 27, 1998 - $2,630) for imports of raw materials and finished goods inventories to be received.

12. Segmented information:

Management has determined that the Company operates in one dominant industry and geographic segment which involves the design, manufacture, and retail of fashion leather and suede apparel.

13. Year 2000 issue:

The Year 2000 issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. The effects of the Year 2000 issue may be experienced before, on, or after January 1, 2000, and, if not addressed, the impact on operations and financial reporting may range from minor errors to significant systems failure which could affect an entity's ability to conduct normal business operations. It is not possible to be certain that all aspects of the Year 2000 issue affecting the Company, including those related to the efforts of customers, suppliers, or other third parties, will be fully resolved.

BOARD OF DIRECTORS

Edwin F. Hawken
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President, Penfund Inc.

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Director
Chairman, Toronto Hydro

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Director
President, STS Systems, Limited

Stephen I. Kahn
Director
Chairman and CEO, dELiA*s Inc.

Peter Brown C.A.
Director
President, Weswin Developments Limited

Irving Wortsman
Director
Businessman

Jeffrey Wortsman
Director
President and CEO of the Company

OFFICERS

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President and CEO

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Executive Vice-President and COO

Olga E. Koel
Executive Vice-President, Design
Production and Imports

Bryan Tatoff, C.A.
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Controller

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Vice-President, MIS and CIO

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Vice-President, Design

Karen J. Marshall
Vice-President, Logistics
and Distribution

Ellen P. Réthoré
Vice-President, Marketing

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STOCK TRADING SYMBOL
DL on the Toronto Stock Exchange

REGISTRAR AND TRANSFER AGENT
CIBC Mellon Trust Company

BANK
Canadian Imperial Bank of Commerce, Toronto

ANNUAL MEETING
The Annual Meeting of
Shareholders will be held at
The Ontario Club
Commerce Court South
30 Wellington Street, Suite 500
Toronto, Ontario
Thursday, November 4, 1999
4:00 p.m. (Toronto time)

WEBSITE
www.danier.com

DANIER LEATHER INC.

www.danier.com